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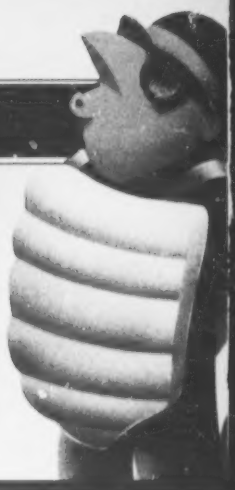
APRIL 6, 1987
VOLUME 139
NUMBER 7

38 *Bank of Canton's H.P. Chia*



THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 196 AND 197.

COVER STORY

76 The Unlimited?
By Steven B. Weiner
On a simple formula, brilliantly executed, Leslie Wexner has become a multibillionaire. Now he compares his company, The Limited, with IBM. Pride goeth before a fall?

COMPANIES

38 Bank Of Canton Of California
By Peter Fuhrman
Taiwan's secretive U.S. bankers.

48 Echlin Inc.
By Laura R. Walbert
Cheap imports aren't killing this U.S. auto parts maker.

52 Yamaha Motor Co.
By Andrew Tanzer
There's a good reason Japan's Yamaha companies produce so many different products. They have no choice.

64 Mason Best Co.
By Toni Mack
The hottest little merchant bank in Texas.

116 The Up & Comers: Computone Systems
By Burr Leonard
Change was inevitable but this change was a disaster.

118 The Up & Comers: WTD Industries, Inc.
By Jack Willoughby
Bruce Engel's company is grossing over $160 million a year and giving Weyerhaeuser trouble.

124 Tele-Communications, Inc.
By Howard Rudnitsky and Edward F. Cone
The bosses care about building assets, not showing earnings. The result has made TCI the giant of cable TV.

136 Todd-AO
By Alex Ben Block
Here's why the reclusive Naify brothers took a seemingly low price for their movie theater and cable-TV holdings.

140 Twentieth Century Fox
By Alex Ben Block
Barry Diller and Rupert Murdoch's fourth TV network.

INDUSTRIES

42 Publishing: "We'll Get Back To You On That"
By Richard Behar
Two different outfits bought part of Ziff-Davis Publishing. Some acquisitions turn out badly, others do better.

105 Industrial Design: Ode To A Locomotive
By Gary Slutsker
There was a time when America gave the world its symbols for industrial might and progress.

INTERNATIONAL

36 "You Keep Your Eyes And Ears Open"
By Thomas Jaffe
Meet Frank Lowy, the resourceful Australian dealmaker.

37 Liquidity Trap
By Andrew Tanzer
While most developing countries suffer from too little foreign exchange, Taiwan is earning far too much.

DEPARTMENTS

6 Side Lines
8 Follow-Through
12 Trends
14 Readers Say
17 Fact and Comment
22 Other Comments
25 Fact and Comment II
199 Flashbacks
200 Thoughts

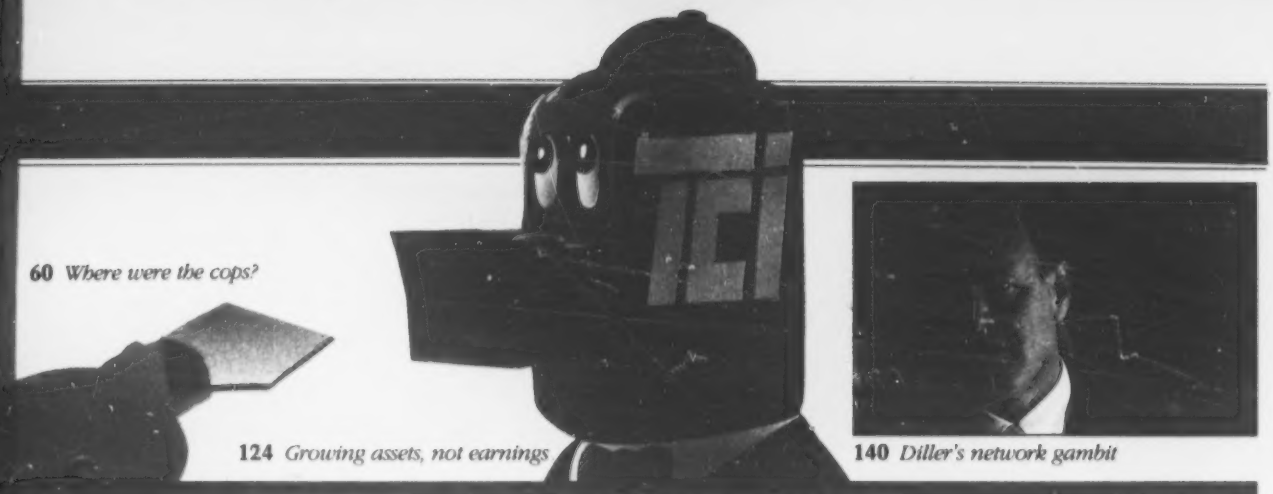
COLUMNISTS

183 Ben Weberman
184 Susan Lee
186 Kenneth L. Fisher
188 Ann C. Brown
190 Srully Blotnick
191 Stanley W. Angrist

MONEY & INVESTMENTS

27 What's Ahead For Business
28 The Forbes Index
175 The Forbes/Wilshire 5000 Review

Cover illustration by Greg Couch



60 *Where were the cops?*

124 *Growing assets, not earnings*

140 *Diller's network gambit*

GOVERNMENT

32 Put Up The Price Of Beans
By Janet Novack and Howard Banks
Congress finds a new way to spend without raising taxes.

LABOR

35 Talking Union
By John Merwin
Air controllers across the country are organizing again.

INVESTING

60 Where Were The Cops?
By Richard L. Stern and Michael Fritz
The small investor is still prey to stock cheaters.

178 The Statistical Spotlight: High Time
By Michael Ozanian
The weak dollar should make U.S. multinationals more competitive. So when does it show in earnings per share?

180 The Funds: Distressed Merchandise
By Richard Phalon
The sharp-eyed fellows at Mutual Shares are poking at the portfolio of an Ivan Boesky fund based in London.

194 Streetwalker
Longview Fibre; Public Service Co. of New Mexico; Quixote Corp.; Malrite Communications; Park Communications; Elder-Beerman Stores.

ON THE DOCKET

84 The Return Of The Blacklist
By Deirdre Fanning
The Justice Department uses blackmail to campaign against waste and fraud in government contracts.

TAXING MATTERS

88 Stash Accounting
By Adam Snitzer
Why would an investment banker keep his loot in a closet?

NUMBERS GAME

92 A Telephonic Tower Of Babel
By Jill Andresky
Lawyers, accountants and state regulators clash over phone rates. Also: The death of universal life?

MARKETING

146 The Gold Mine Is Playing Out
By Janet Novack
Raising money for the GOP. Also: Japanese baseball.

SCIENCE & TECHNOLOGY

152 Dancing On The Head Of A Pin
By Gail Bronson
Atom-size breakthroughs in designs for technology. Also: Grade-school creativity.

PERSONAL AFFAIRS

158 The Travel Bargain Of The Americas
By James W. Michaels
There are lots of pleasant surprises in Guatemala, including the beauty of the country and the reach of your dollar. Also: Leveraging your mutual fund.

CAREERS

162 And Some Fall By The Wayside
By Dyan Machan
Corporate jobs that lead nowhere, fast.

FACES BEHIND THE FIGURES

168 Paul Allen, *Microsoft cofounder*
168 Jackson T. Stephens, *Stephens Inc.*
170 Arnold Kopelson, Platoon *producer*
170 Robert Arum, *Fight promoter*
172 Leo Kahn, *Entrepreneur*
172 James Koch, *Samuel Adams beer*
173 Akira Baba, *Kashiyama & Co.*

April 6, 1987 Volume 139 Number 7 Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in April and two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription $45 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

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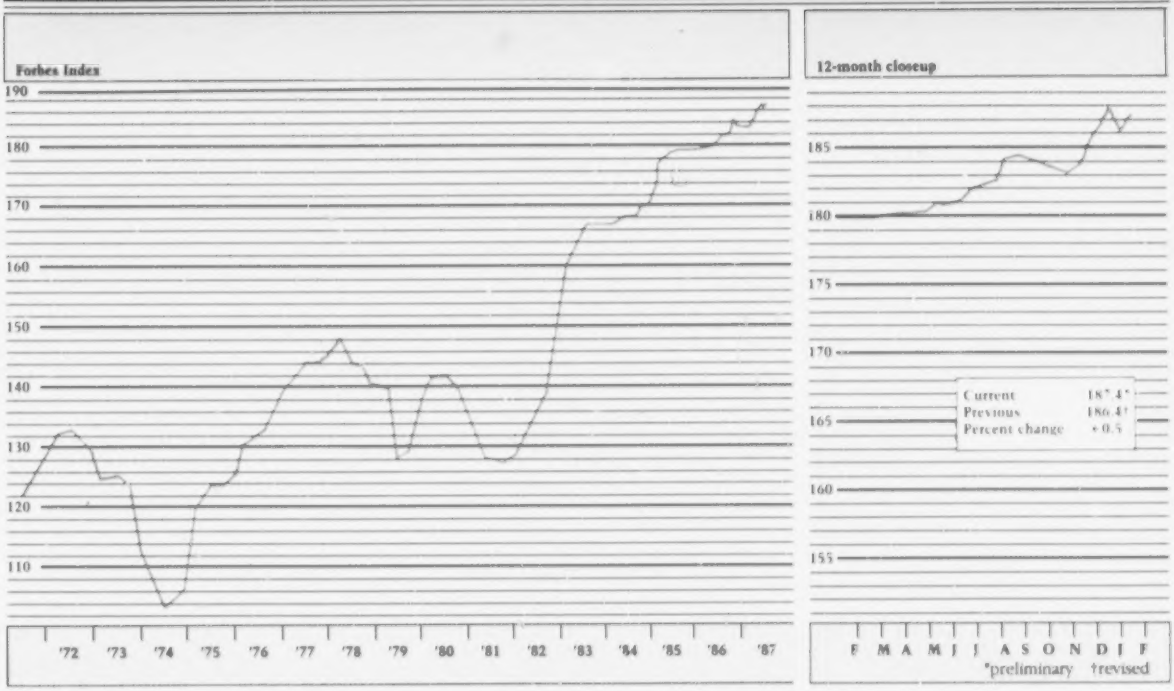
The Forbes Index



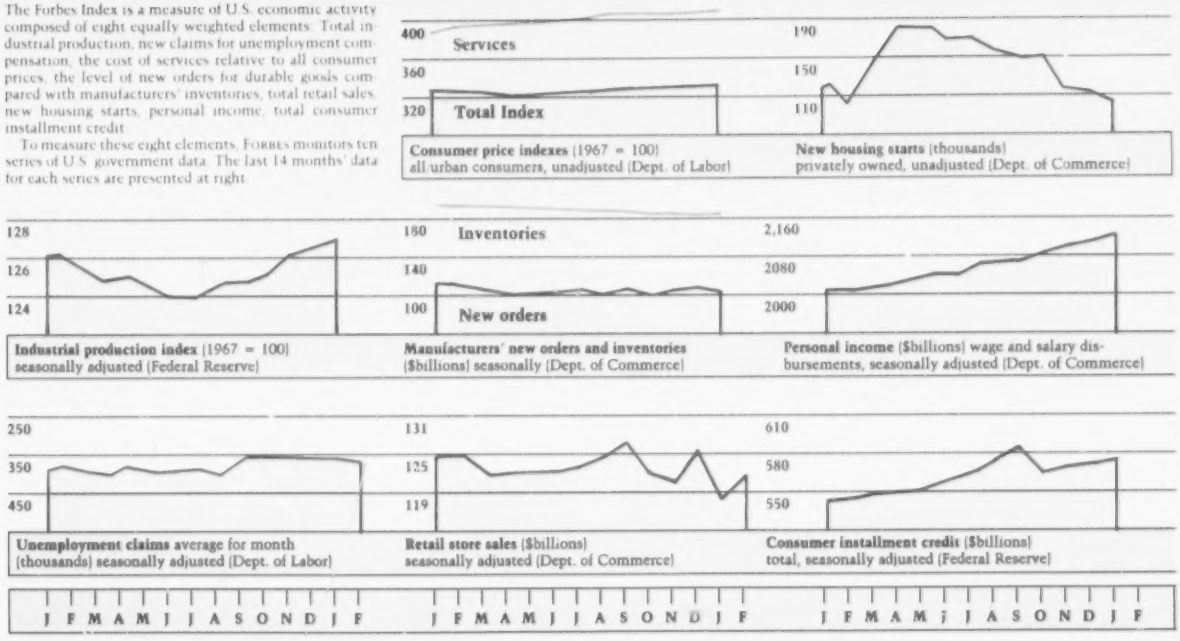
Return to normalcy. After falling 0.9% in January, the Forbes Index rebounded 0.5% during the latest reporting period. The slump in auto sales, following the rush in December to beat tax law changes, apparently is no longer distorting the numbers. Retail sales bounced back 4.1% in February from the depressed levels of January. Also boosting the Index was consumer installment credit, which increased 0.1% in January.

The outlook for manufacturing remains uncertain. The ratio of manufacturers' new orders for durable goods (three months to January) to inventories (January) fell 0.8%, after posting gains the previous two months. New unemployment claims rose by 1.5% in February, the third consecutive increase.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


400
Services
360
320
Total Index
190
150
110
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
128
126
124
180
Inventories
140
100
New orders
2,160
2080
2000
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
131
125
119
610
580
550
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
J F M A M J J A S O N D J F
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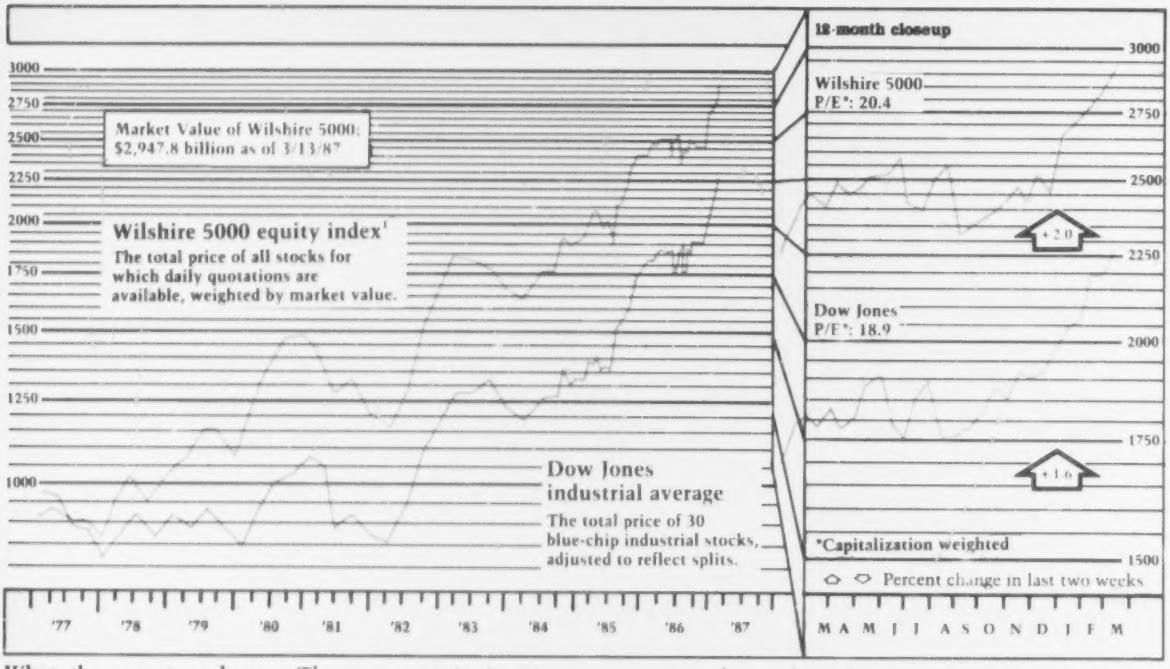
The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


12-month closeup
3000
2750
2500
2250
2000
1750
1500
1250
1000
Market Value of Wilshire 5000: $2,947.8 billion as of 3/13/87
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
Wilshire 5000 P/E*: 20.4
Dow Jones P/E*: 18.9
+2.0
+1.6
*Capitalization weighted
Percent change in last two weeks
'77 '78 '79 '80 '81 '82 '83 '84 '85 '86 '87
M A M J J A S O N D J F M

What the report cards say. The average price/earnings ratio of Wilshire index stocks went from 17.8 on Jan. 2 to 20.6 by Feb. 27. That 15.7% increase nearly matches the gain in the index itself, since the figure for trailing 12-month earnings didn't change much. Of course, few companies file earnings reports early in a new year. (The exceptions are October and November fiscal-year companies, plus quick-reporting December companies, especially banks.) But among the several hundred companies with new quarterly numbers there were some large gains, such as Tandem Computers' 107% gain over the fourth quarter of 1985, Marion Laboratories' 65% gain and Ralston Purina's 45%.

In the first half of March the Wilshire gained 2%, while its P/E fell 1%, to 20.4. With the Wilshire closing on Mar. 13 within 0.4% of the record high it hit a day earlier, stocks are not cheap. But profits may be catching up with Wall Street's expectations.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.7	3.5	3.4	3.6	5.1	4.7
in last 52 weeks	20.5	16.9	26.0	21.4	24.1	16.2

Stock performance based on six key investor yardsticks

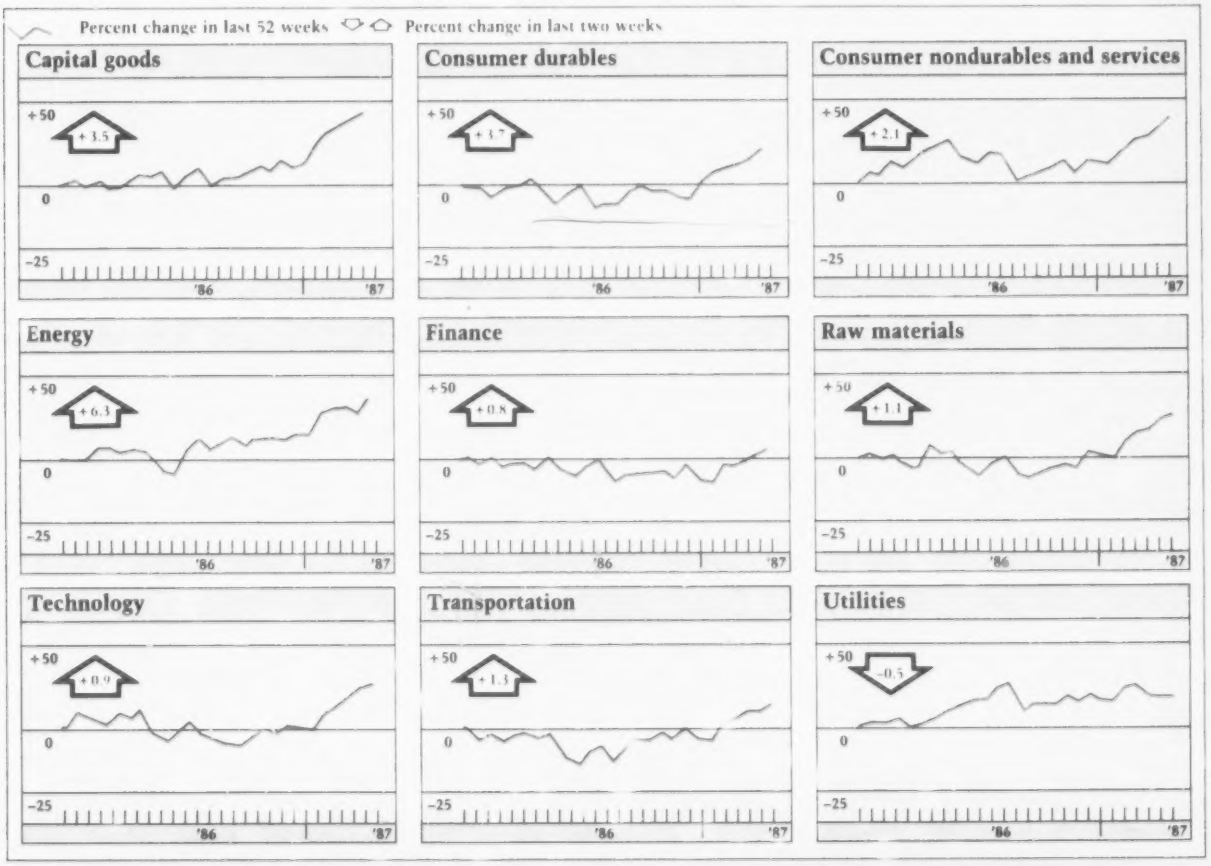
Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	3.2	7.1	8.2	4.4	5.0	5.4	1.1	7.8	8.7	2.3	3.7	8.1
in last 52 weeks	22.4	43.1	57.8	26.5	21.2	20.1	14.0	42.3	59.2	22.0	23.8	25.5

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 3/13/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Utilities run out of steam. Since the start of the year utilities are up only 2.1% (vs. 18.2% for the Wilshire index). Individual investors, the principal owners of utility stocks, have been distracted by mutual funds and better growth opportunities elsewhere in the market. The perception that interest rates may be near a bottom also has not helped these high-yield securities. In addition, with fuel costs under control and inflation at a low level, state regulators have been tough on rate increases. Cogeneration, more efficient manufacturing techniques and a decline in heavy industry have limited earnings growth at some utilities. And the Financial Accounting Standards Board has ruled that power companies with abandoned unfinished plants must take larger writeoffs.



What The Analysts Think

The market expects oil-price firmness. Analysts believe that OPEC, at least for now, will be able to hold the price of oil near $18 per barrel. In the last two weeks Wall Street's seers raised their 1987 earnings forecasts for the energy sector by 3.1%. That still leaves energy stocks selling at a rather hefty 17 times estimated earnings.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.59	19.0
1987 estimates	3.57	13.8
1988 estimates	4.40	11.7

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Energy	$2.40	17.0	3.07%	1.69%
2	Consumer durables	3.53	13.8	0.59	0.18
3	Raw materials	2.39	16.2	0.33	0.04
4	Finance	3.64	10.0	–0.20	–0.72
5	Technology	2.72	16.2	–0.25	–1.37
6	Transportation	2.48	13.9	–0.27	–1.65
7	Consumer nondurables	2.41	17.4	–0.35	–0.26
8	Utilities	2.88	10.5	–0.48	–0.78
9	Capital goods	2.48	17.6	–0.94	–1.82

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 3/13/87. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

Want to trade something that will move with what's happening on the evening news? Take a look at platinum.

MORE PRECIOUS THAN GOLD

By Stanley W. Angrist

Though my readers are perhaps more interested in the precious metals than I am, I do make an effort to follow what they are doing. Right now the only one that looks even mildly interesting to me is platinum. The metal is usually difficult to trade, and in recent months it has become even more difficult, with periodic wild swings in price.

One of the factors that make platinum so problematic to trade is that there are only three countries that produce significant amounts of the metal—South Africa, the Soviet Union and Canada. Historically, South Africa increases its gold output in order to maintain its necessary level of foreign exchange rather than dump platinum supplies onto a much thinner market. The Soviets are also rather careful marketers of platinum and are very sensitive to how much metal the market can handle without suffering significant slippage.

Over the past couple of years platinum production and recycling have not been sufficient to meet the growing demand. The deficit was 100,000 ounces in 1985 and is estimated to have been at least 60,000 ounces in 1986. The 1987 decline in stocks probably will be significantly higher than that, thus steadily eating into available platinum supplies of about 1.7 million ounces.

Automobile catalysts account for 31% of platinum consumption, followed by jewelry demand, which reached 29% in 1985. Chemical, petrochemical, electrical and various other uses account for 31% of consumption, while 9% is being absorbed by investors—platinum bullion coins are now being minted in several countries.

Aside from the fundamentals of supply and demand as outlined above, platinum is subject to exogenous factors that have nothing to do with the fundamentals of the metal. World events of significant proportions could cause platinum to move in price more than any of the endogenous factors. For example, if racial unrest were to flare to new heights in South Africa, interrupting the mining of the metal, prices probably would explode to the upside again, as they did in the summer of 1986. Or if the House of Saud in Saudi Arabia were to collapse or be toppled in a coup, which in turn could threaten the supply of Saudi crude, then precious metals prices, including platinum, probably would go through the roof. Any of these events would have a positive effect on platinum prices. (Remember, however, these are what-if situations, not forecasts.)

Given the endogenous and exogenous factors detailed here, how should one go about trading platinum? I think the safest way would be by way of a platinum/gold spread. I suggest the purchase of two October platinum contracts (50 ounces each) and the sale of one October gold contract (100 ounces), with platinum at a premium of less than $125 per ounce. The margin is about $2,500, while the round-turn commission at a discount broker should be no more than $40. I would look for a $100-per-ounce profit ($10,000 per spread), and I would risk no more than $25 per ounce ($2,500 per spread). ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

All that glitters . . .

Platinum is produced in only three countries, essentially, but it is used the world over. For the last two years demand has exceeded supply. This creates a bullish environment for speculators in the metal.

	1982	1983	1984	1985	1986E
	(thousands of ounces)				
Supply					
South Africa	1,960	2,070	2,280	2,320	2,350
Canada	120	80	150	150	145
Others	30	40	40	40	35
USSR (sales)	380	290	250	230	280
Total	2,490	2,480	2,720	2,740	2,810
Demand by region					
Western Europe	330	330	410	400	460
Japan	1,050	950	1,140	1,230	1,020
North America	710	720	910	1,010	1,150
Rest of Western World	230	180	170	170	190
Western sales to communist bloc/China	30	20	30	30	50
Total	2,350	2,200	2,660	2,840	2,870
Change in stocks	140	280	60	−100	−60

E. Estimate. *Source: Johnson Matthey's* Platinum 1986 Interim Review.